

January 30, 2008

Victor Company of Japan, Ltd.  
Funai Electric Co., Ltd.

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**Notice of Basic Agreement concerning a Business Alliance between Victor  
Company of Japan and Funai Electric**

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Victor Company of Japan, Ltd., known as JVC, and Funai Electric Co., Ltd., known as Funai Electric, have reached and signed a basic agreement today to implement a wide-ranging business alliance between their two companies centered on display equipment in the video equipment business sector. The details are as follows.

Under this alliance, the two companies will operate cooperative business, including joint development, mutually contracted development, joint production and mutually contracted production in the display equipment and multifunction video equipment businesses.

The partnership aims to effectively use and mutually complement the management resources of both companies, to capitalize on economies of scale through business cooperation, and to strengthen their management infrastructure in the video equipment business.

JVC and Funai Electric believe that this business alliance will contribute to strengthening the business infrastructure and competitiveness of their video equipment business as part of the larger framework of the capital and business alliance and management integration of JVC and Kenwood Corporation, which is already under way.

**1. Objectives of the Alliance**

Both JVC and Funai Electric are working to strengthen respective management foundations in order to cope with intensifying competition on a global scale in the electronics industry. As part of such efforts, both companies have been considering ways to strengthen their video equipment businesses through alliances with other companies, while benefiting from each company's unique strengths.

The two companies arrived at a basic agreement through common understanding that a comprehensive business alliance focusing on display equipment in the video equipment segment, part of the core business of both companies, would be an effective way to mutually complement the strengths of respective management resources and create new synergy effects and economies of scale.

Funai Electric is strengthening its globally-optimized production system through cost competitiveness achieved by its unique “Funai Production System (FPS)” and mass production technology, and selling its products in popular price ranges primarily in the markets of the Americas. On the other hand, JVC is operating its worldwide business of high value-added products utilizing high resolution technology, focusing also on markets in Japan and Europe.

Under the alliance, the partners will exploit each other’s strengths and expertise as audio-visual equipment manufacturers to benefit from concentrated production achieved by mutual sharing of the European and American production bases. They will complement and enhance the product mix in different price ranges and regions through mutual supply of products offering unique features each can provide. The companies will improve development efficiency and reduce investment costs through joint platform development for digital video equipment, and take advantage of the cooperative efforts in other ways over a wide spectrum of areas.

## **2. Major Points in the Agreement on the Comprehensive Business Alliance**

### (1) Business Segments Covered by the Alliance

- 1) Display equipment business
- 2) Multifunction video equipment, other video equipment businesses

### (2) Operations in the Business Alliance

#### 1) Joint production and mutually contracted production

##### (i) Production of products for the Americas contracted to JVC by Funai Electric

- Funai Electric will entrust the production of LCD televisions with and without built-in DVD players to JVC’s factory for the Americas in Mexico, which will begin by February 2008.

##### (ii) Production of products for Europe contracted to Funai Electric by JVC

- JVC will entrust the production of LCD televisions to Funai Electric’s European factory in Poland, which will begin by the first half of 2008.

#### 2) Joint development and mutually contracted development

##### (i) Development of LCD televisions contracted to JVC by Funai Electric

- Funai Electric will entrust the development of LCD televisions to be sold primarily in Europe to JVC by June 2008.

##### (ii) Joint development of LCD televisions for JVC

- The two companies will jointly develop LCD televisions to be sold by JVC primarily in Europe and Americas, and Funai Electric will launch the production of these by the second half of 2008.

### (3) Other important considerations

- 1) *Joint purchasing*: Promote a joint purchasing strategy to maximize synergy effects such as reduction of raw material costs and strengthening of purchasing power.
- 2) *Logistic cooperation*: Promote sharing of distribution infrastructure to maximize synergy effects such as reduction of distribution costs and improvement of supply chains.

- 3) *Cooperation for production technology*: Promote cooperation in production technology to further increase the manufacturing capacity.
- 4) *Cooperation in after-sales service*: Promote cooperation in after-sales service to improve customer satisfaction.
- 5) *Cooperation in environmental protection*: Promote cooperation in environmental protection to improve environmental management.

### **3. Capital and Business Alliance between Victor Company of Japan, Ltd. and Kenwood Corporation**

JVC concluded a capital and business alliance agreement with Kenwood Corporation on July 24, 2007, and the two companies have been making specific plans for management integration. Within the larger framework of the management integration between JVC and Kenwood, the new business alliance between JVC and Funai Electric aims to improve the business infrastructure and competitiveness of JVC and Funai Electric, focusing on display equipment in their video equipment business.

### **4 . Overview of Victor Company of Japan, Ltd.**

- (1) Name: Victor Company of Japan, Ltd.
- (2) Major Business Operations: Production, manufacture, and sale of audio and video equipment, information and communications equipment, and playback media and recorded media for audio, video, data, etc.
- (3) Date of establishment: September 13, 1927
- (4) Location of Head Office: Yokohama City, Kanagawa Prefecture
- (5) Executive officer: Representative Director, Kunihiko Satoh
- (6) Capital: 51,615 million yen
- (7) No. of employees: Non-consolidated:6,452  
Consolidated: 25,540 ( domestic: 8,083, overseas: 17,457 )
- (8) Large shareholder structure and shareholding ratio (as of September 30, 2007 )
 

Matsushita Electric Industrial Co., Ltd.	36.81%
Kenwood Corporation	17.00%
- (9) Relationship with Funai Electric Co. Ltd.: Victor Company of Japan has no capital relationship or human relationship with Funai Electric.
- (10) Schedule
 

January 30, 2008	Board of Directors Resolution
January 30, 2008	Signing of the Basic Agreement
- (11) Future Outlook  
This alliance will have little effect on the settlement of accounts for the Fiscal Year ending March 2008.

### **5 . Overview of Funai Electric Co., Ltd.**

- (1) Name: Funai Electric Co., Ltd.
- (2) Major Business Operations: Manufacture and sale of electrical equipment and machinery
- (3) Date of establishment: August 9, 1961
- (4) Location of Head Office: Daitoh City, Osaka Prefecture
- (5) Executive officer: President and CEO, Tetsuro Funai
- (6) Capital: 31,278 million yen

- (7) No. of employees: Non-consolidated: 1,213  
Consolidated: 15,296 ( domestic:1,838, overseas: 13,458 )  
Includes 12,330 contract manufacturing factory employees.
- (8) Large shareholder structure and shareholding ratio (as of September 30, 2007 )
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|---------------|-------|
| Tetsuro Funai | 35.5% |
| Tetsuo Funai  | 4.8%  |
- (9) Relationship with Victor Company of Japan, Ltd.: Funai Electric has no capital relationship or human relationship with Victor Company of Japan.
- (10) Schedule
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|------------------|--------------------------------|
| January 30, 2008 | Board of Directors Resolution  |
| January 30, 2008 | Signing of the Basic Agreement |
- (11) Future Outlook
- The effect of this partnership on business results is unknown at this stage. However, in the future we will factor in expected results according to the progress of this business partnership.

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